

**Auditing Standards – Virtual:**

**SA 299 (Revised), Joint Audit of Financial Statements;**

**SA 600, Using the work of Another Auditor;**

**SA 610 (Revised), Using the work of Internal Auditors;**

**SA 620, Using Work of an Auditor's expert;**

**Organised by:**

***The Western India Regional Council,***

***The Institute of Chartered Accountants of India***

Presented by:

CA. Shreyans Ravrani

13<sup>th</sup> December 2022

# Agenda

## SA 299, Joint Audits

- ▶ Audit Planning, Risk Assessment and Allocation of Work
- ▶ Responsibility of Joint Auditors
- ▶ Audit Conclusion and Reporting
- ▶ Other Consideration

## SA 620, Using work of auditors' expert

- ▶ Need for an auditor's expert
- ▶ Management expert v/s auditors expert
- ▶ Nature, timing & extent of audit procedures
- ▶ Competence, capabilities & objectivity
- ▶ Reference to the auditor's expert in audit report and the auditor's responsibility for overall audit opinion

## SA 600, Using work of another auditor

- ▶ Acceptance as Principal Auditor
- ▶ The Principal Auditor's procedures
- ▶ Coordination between auditors
- ▶ Division of responsibility
- ▶ Reporting considerations

## SA 610, Using work of Internal Auditor

- ▶ Determine the appropriateness of work of the internal audit function
- ▶ Agree with the management for the approach
- ▶ Appropriately direct, supervise and review their work.

Practical Challenges | Regulators Expectations | Documentation

**SA 299 (Revised),  
Joint Audit of  
Financial Statements;**



---

# Joint Audit

---

- ▶ A joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing the audit report. Such auditors are described as joint auditors
- ▶ Is Joint audit mandatory?

---

# Objective of SA 299

---

- ▶ To lay down broad principles for the joint auditors in conducting the joint audit.
- ▶ To provide a uniform approach to the process of joint audit.
- ▶ To identify the distinct areas of work and coverage thereof by each joint auditor.
- ▶ To identify individual responsibility and joint responsibility of the joint auditors in relation to audit

# Audit Planning, Risk Assessment and Allocation of work

---

## A) Development of Audit Plan

- Identify division of audit area and common area
- Ascertain reporting objectives to decide timing of audit and nature of communication
- Sharing significant factors among joint auditors, which in auditor's professional judgement are significant in directing team's efforts
- Ascertain the Nature, Time and Extent of resources necessary

## B) Risk Assessment

- Risk of material misstatement need to be considered by each joint auditors and shall be communicated to other joint auditors and shall be documented.

### **Practical considerations:**

- *Rotation of assigned responsibility?*
- *Can allocation be done on account based?*

# Audit Planning, Risk Assessment and Allocation of work

---

## C) Allocation of Work

- Joint auditors by mutual discussion will divide work among themselves
- Some areas due to nature of business of entity or owing to their importance may not be divided among the joint auditors and would be covered by all the joint auditors.

### *Practical considerations*

- *Division of responsibility – concurrence of management ?*
- *Can both auditor do the entire audit?*
- *Allocation of fees?*

# Audit Planning, Risk Assessment and Allocation of work

---

## D) Documentation of work allocated

- Work allocation document shall be signed by all the joint auditors and shall be communicated to TCWG.
- Such documentation helps in avoiding any potential dispute or confusion which may arise among joint auditors or between entity and joint auditors.



---

# Responsibility of Joint Auditors

---

## A) Individual responsibility of Joint Auditors

- In respect of work divided among the joint auditors, each joint auditor shall be responsible for work allocated to such auditor.

## B) Joint and several responsibility of Joint Auditors

- Work not divided
- Common areas decided by Joint auditors
- Matters which brought to notice of joint auditors by one of them
- Presentation and disclosure of F.S. as per applicable FRF.
- Audit report complies with relevant standards and statues.
- Obtain common management representation letter.

### **Practical considerations:**

- *Examples of common areas?*
- *Conflicts of views?*

---

# Audit Conclusion and Reporting

---

## A) Reporting Requirements

- Joint auditors are required to issue common report.
- In case of disagreement with regard to the opinion or matters to be covered by the audit report, they shall express their opinion in a separate audit report.
- In case of separate reports, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Such reference shall be made under the heading “Other Matter Paragraph” as per SA 706.

# Practical Challenges and Documentation

---

## Practical challenges

- Access to work papers of joint auditors
- Situation in CFS wherein joint auditor of parent company is sole auditor of components
- Communication protocols between the joint auditors, with the management and TCWG
- Rotation of areas allocation
- Consensus amongst auditors in complex areas involving judgements

## Documentation:

- Joint Responsibility Statement
- Common Engagement letter
- Common management representation letters
- Minutes of meetings amongst joint auditors, with management and those charged with governance

**SA 600, Using the work of another auditor;**



---

# Introduction

---

- ▶ This SA **applies** in relation to:
  - ▶ Describes **Principal auditors** use of the work of the other auditor
  - ▶ Once the principal auditor decides to use the work of the other auditor, he should determine how the work of the other auditor will affect his own audit work
  - ▶ Applies only if the work of the other auditor is material with respect to the overall financial information and financial statement
  
- ▶ This SA **does not apply** in relation to:
  - ▶ **Instances of joint audit** and auditor's relationship with a **predecessor auditor**
  - ▶ Not applicable if the principal auditor concludes that the financial information of the component is immaterial

---

# Example

---

- ▶ Auditors of holding company preparing CFS – relying on the financial information audited by other auditors of the subsidiaries & associates which will be used for the purpose of consolidation
- ▶ Auditors of an entity whose branch / division is being audited by another auditor (due to it being located in a different state / country etc). The financial information of such branch / division being used for the purpose of preparation of the entity's standalone financial statements

---

# How will this benefit you?

---



# Definitions

## Component

means a **division , subsidiary , joint venture, associate** whose financial information is included in the financial information audited by the principal auditor

## Principal Auditor

means the **auditor with the responsibility of reporting on the financial information** of an entity and that financial information includes one or more components of the financial information audited by another auditor

## Other auditor

means an **auditor other than a principal auditor** with the responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.



# Acceptance as Principal Auditor

Consideration by Principal auditor (PA) to decide whether he can act as PA:

01

- ▶ the **materiality** of the portion of the financial information which the principal auditor audits

02

- ▶ Degree of **knowledge** regarding the **business** of the components

Acceptance as  
Principal Auditor

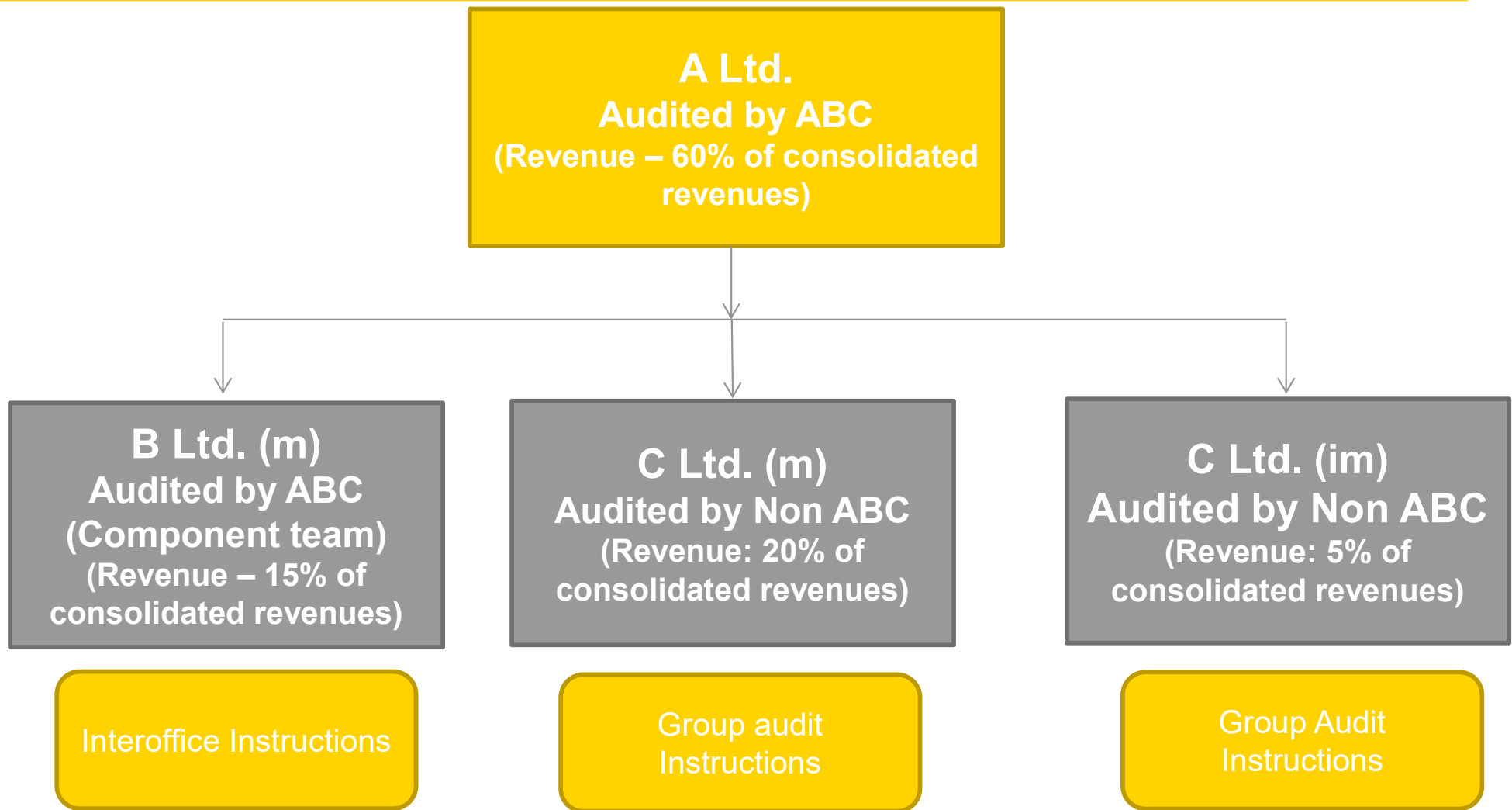
- ▶ **Risk of material misstatement in respect** of the financial information of the components audited by the other auditor

03

- ▶ **Additional procedures** to be performed by the principal auditor in respect of other components

04

# Example



M – material subsidiary  
Im – immaterial subsidiary

# Coordination between auditors

## Steps:

- ▶ Sufficient liaison between principal auditor and other auditor should be made
- ▶ Issuing a written communication to the other auditor (E.g.: Group audit instructions)
- ▶ Any matters that come to the PA's attention that he thinks may have an important bearing on the other auditor's work should be appropriately coordinated

## Principal auditor's role

## Other auditor's role

### Steps:

- ▶ To coordinate and understand the context of his work getting used
- ▶ Bring to the PA's attention any significant findings requiring to be dealt with at entity level

# The Principal Auditor's procedures

---

- ▶ Principal auditor is **entitled to rely on the work of the auditor** of B and C, who has been appointed to audit the component
- ▶ Principal auditor should **consider the professional competence** of the auditor of B and C especially if he is not a member of the ICAI
- ▶ Principal auditor should obtain sufficient appropriate audit evidence regarding the work done by the other auditor and see whether it is adequate
- ▶ Principal auditor should advise the other auditor of **the use that is to be made of his work** and report
- ▶ **Nature, timing and extent** of procedures of the Principal auditor depends on the circumstances of the engagement and knowledge on the professional competence of the other auditor
- ▶ Exercise of Power given under section 143 of Companies Act, 2013, **Access to records of Subsidiaries and Associate Companies** by auditor of a Company which is a Holding Company.

# The Principal Auditor's procedures (cont..)

---

- ▶ Principal auditor should inform the other auditor (using the interoffice instructions) of matters requiring
  - ▶ special consideration;
  - ▶ procedures for the identification of inter-component transactions that may require disclosure; and
  - ▶ the time-table for completion of audit and ensure compliance of the same by the other auditor
- ▶ Principal auditor can discuss or review summary of procedures and findings which may be in the form of a written checklist or questionnaire.
- ▶ Principal auditor may require the other auditor to answer a detailed questionnaire. The other auditor should respond to such questionnaire on a timely basis.
- ▶ Principal auditor is entitled to instruct to component auditor to acknowledge the receipt of instructions and on completion of audit, report the execution of conclusion of all tasks assigned.

---

# The Principal Auditor's procedures (cont..)

---

- ▶ Principal auditor **may decide supplemental tests** of the records, or the financial statements as may be necessary
- ▶ The Principal auditor should document in his working papers
  - ▶ the components whose financial information was audited by other auditors;
  - ▶ their significance to the financial information of the entity as a whole;
  - ▶ the names of the other auditors; and
  - ▶ any conclusions reached that individual components are not material
- ▶ Principal auditor may **discuss the findings with the management** of the component and the other auditor
- ▶ Principal auditor team can **visit the other component** and **examine the books** and records if he thinks it's necessary to do so
- ▶ All procedures to be documented and how the qualifications or adverse remarks of the other auditor have been addressed in framing his own report

---

# Additional procedures specified by SEBI for PA with respect to the audit / review / results

---

- ▶ Obtain an understanding of the consolidation process.
- ▶ **Discuss with the other auditor or Component Management that are significant to the group.**
- ▶ **Determine the materiality for the CFS as a whole as well as determine whether the component's FS are material to the group.**
- ▶ Design and perform audit / review procedures on the CFS arising from the special considerations relating to the consolidation process.
- ▶ When several components, immaterial in themselves, are together material in relation to the financial information of the entity as a whole, the procedures outlined in SA 600 should be considered.
- ▶ Obtain Management Representations.
- ▶ Evaluate and consider all Reporting Considerations including those communicated by the other auditors.
- ▶ Include in the audit / review documentation, the matters specified in SA 600 Para 18.

# Reporting considerations

**When PA concludes that the work of other auditor cannot be used and PA is unable to perform additional procedures:**

- ▶ the principal auditor shall express a
  - ▶ qualified opinion or
  - ▶ disclaimer of opinion
- ▶ because there is a limitation on the scope of the audit

**Principal auditor's conclusion**

**Other auditor's conclusion**

**If the other auditor issues, or intends to issue, a modified auditor's report :**

- ▶ the principal auditor should consider whether
  - ▶ the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting, that it requires a modification of the principal auditor's report
- ▶ **PA should ultimately decide the reporting consideration in his report**



# Division of responsibility

---

## PA's responsibility

### Principal auditor

- ▶ **would not be responsible** in respect of the work entrusted to the other auditors
- ▶ **except** in circumstances which should have **aroused his suspicion** about the reliability of the work performed by the other auditors

## PA's Audit report consideration

### PA should clearly state the fact

- ▶ the other auditor has audited certain components in his report
- ▶ the principal auditor is not responsible for the work entrusted to other auditor

# Practical Challenges and Documentation

---

## Practical challenges

- Access to work papers or review of their work papers
- Alignment for timely responses by component auditors and adequate opportunity to discuss the key issues
- Management support to share the critical information to both component and principal auditors
- Last mile steps – subsequent events confirmation
- Financial statements prepared and audited under different GAAP; Onus of conversion adjustments
- Unaudited financial statements and work done thereon

## Documentation:

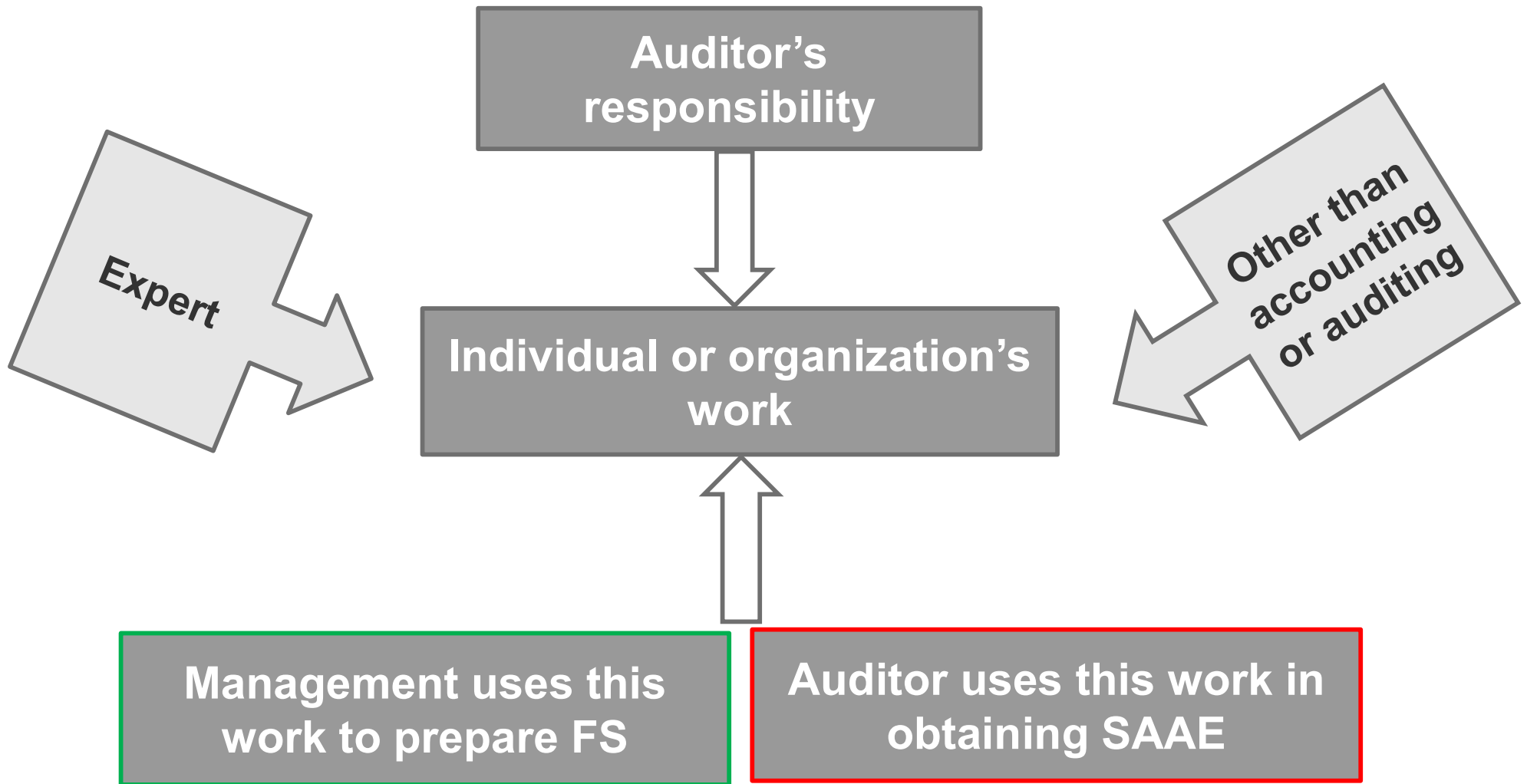
- Minutes of meetings with component auditors, and component management
- Instructions shared to component auditors, their responses, audit trails thereof
- Disposal of modifications in auditors report, key issues identified by them,
- Responses on risks identified and key issues identified by principal auditors

**SA 620, Using the work of an Auditor's expert;**



# Scope

---



---

# Scope limitation – SA 620

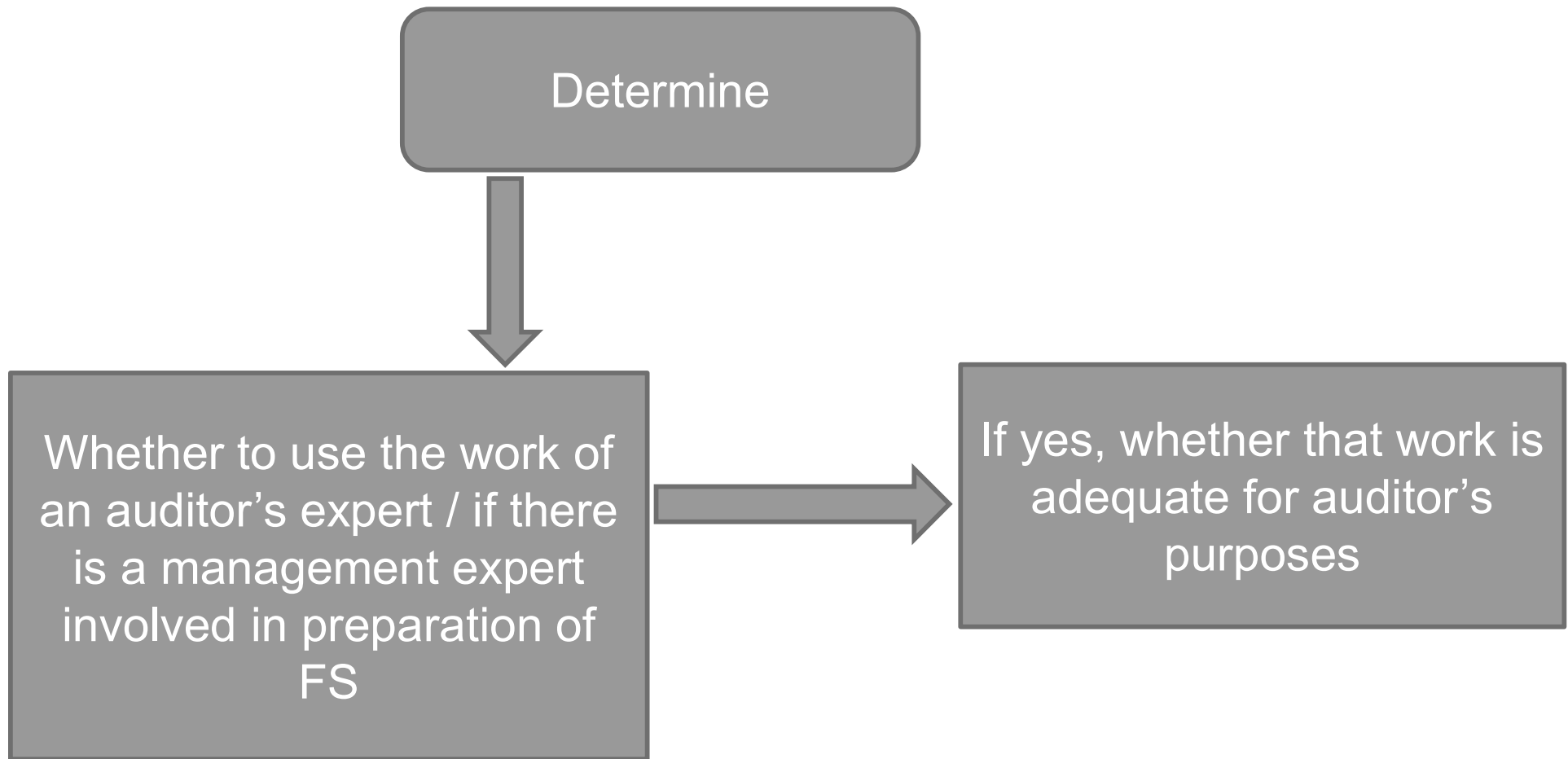
---

This SA does not deal with:

- (a) Situations where the engagement team includes a member with expertise in specialized area of accounting or auditing, which is dealt with in SA 220 (Revised)
  
- (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in SA 500 (Revised)

# Objectives of the auditor

---



# Expertise - skills, knowledge and experience in particular field

---

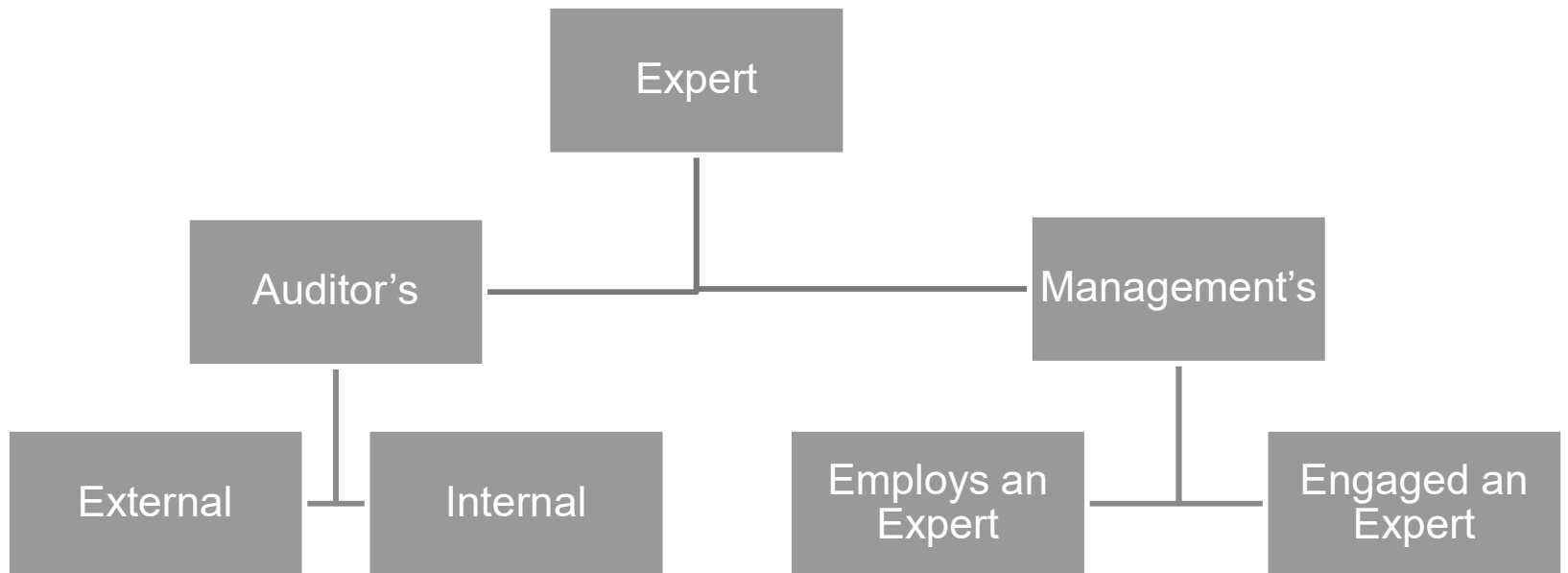
Expert	Not an “Expert”
Expert In taxation law	Expert in Application of AS on Deferred Taxes
Expert in complex modeling for valuing Financial Instruments	Expert in accounting for Financial Instruments

What if this distinction is difficult?

- ❖ Use professional judgment if distinction is difficult.
- ❖ Consider:
  - Applicable professional rules.
  - Education standards.
  - Competency requirements.

# Definitions

	<b>Auditor's Expert</b>	<b>Management's Expert</b>
<b>Status</b>	Individual/Organization	Individual/Organization
<b>Expertise</b>	Other than accounting/auditing	Other than accounting/auditing
<b>Beneficiary</b>	Auditor	Entity
<b>Use of work</b>	Obtain SAAE	Prepare FS





---

# Requirements – Determining the need for an auditor's expert

---

- ▶ If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.
- ▶ The nature and significance of the matter, including its complexity.
- ▶ The risk of material misstatement in the matter.
- ▶ Thorough out the course of auditor need to evaluate involvement of expert as circumstances changes .

---

# Requirements – Determining the need for an auditor's expert

---

- ▶ An auditor's expert may be needed to assist the auditor in one or more of the following:
  - ▶ Obtaining an understanding of the entity and its environment, including its internal control.
  - ▶ Identifying and assessing the risks of material misstatement.
  - ▶ Determining and implementing overall responses to assessed risks at the financial statement level.
  - ▶ Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
  - ▶ Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements

---

# Example of experts

---

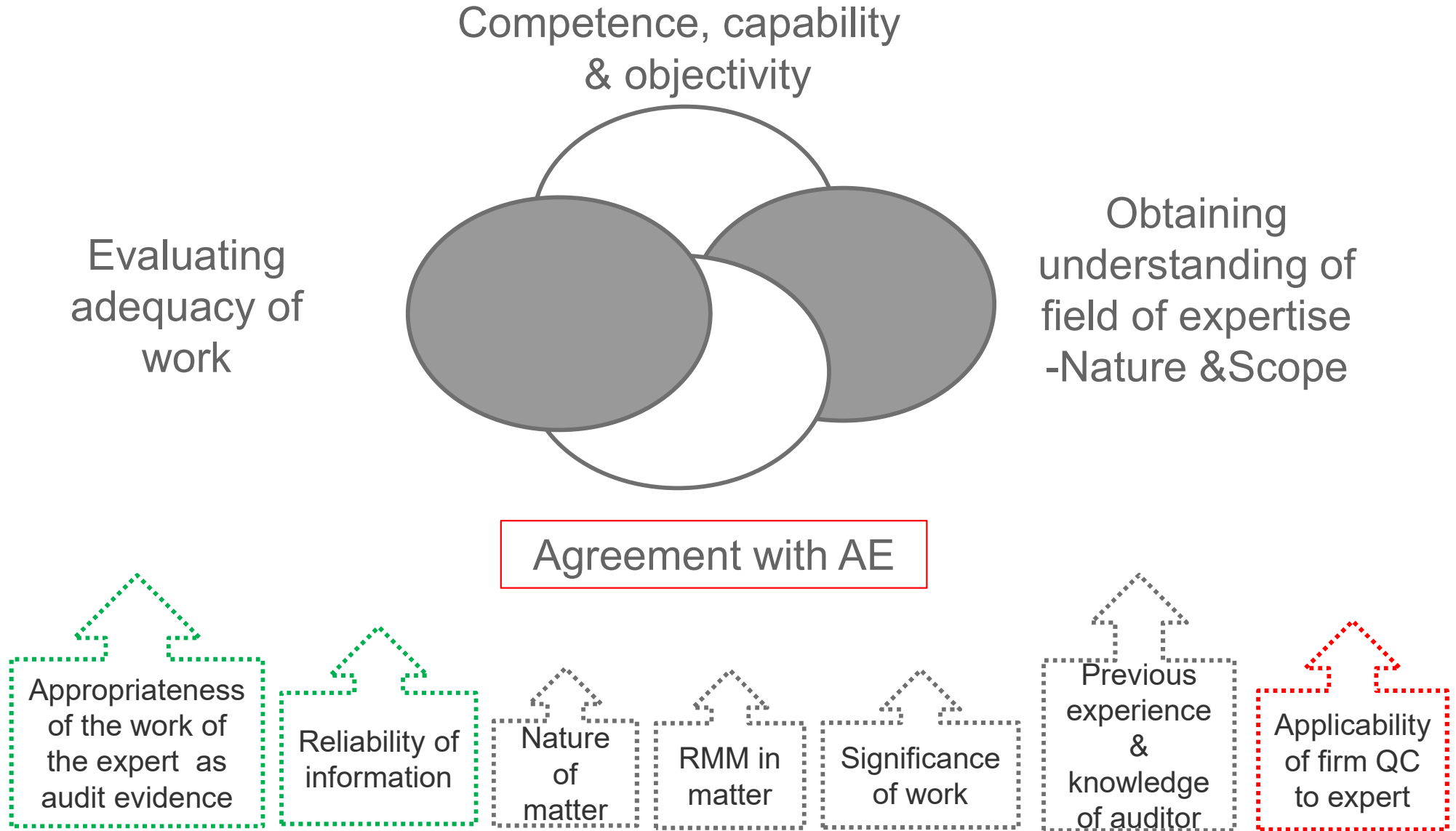
- ▶ Direct Tax and Indirect Tax Expert
- ▶ Valuation Expert - Valuation of PPE, Derivatives, Purchase price allocation in business combination, etc.
- ▶ Physical verification of inventories involving estimates, like Coal
- ▶ IT System expert
- ▶ Legal expert
- ▶ Actuaries' Valuation

# Requirements – Determining the need for an auditor's expert

---

- ▶ When management has used a **management's expert** in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:
  - ▶ The nature, scope, objectives and complexity of the management's expert's work.
  - ▶ Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
  - ▶ The extent to which management can exercise control or influence over the work of the management's expert.
  - ▶ The management's expert's competence and capabilities.
  - ▶ Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
  - ▶ Any controls within the entity over the management's expert's work.
  - ▶ Risk of material misstatement in matter
  - ▶ Availability of alternative sources of audit evidence

# Requirements – Nature, Timing and Extent of audit procedures (wrt Expert) - Factors



# Competence, Capabilities & Objectivity of an Expert

---

- ❖ Evaluate competence, capability & objectivity of expert:
- ❖ **Competence:**
  - Nature & level of expertise.
- ❖ **Capability:**
  - Ability to exercise competence in circumstances of engagement.
- ❖ **Objectivity:**
  - Possible effects that bias/ conflict of interest/ influence of others may have on professional/ business judgment.
  - If External expert - inquire into interests, relationships, fees' arrangement, etc. that threaten objectivity.

# Competence, Capabilities & Objectivity of an Expert

---

- ❖ Sources of Information on Competence, Capabilities & Objectivity:
  - ▶ Personal experience with previous work.
  - ▶ Discussions with that expert.
  - ▶ Discussions with others who are familiar with that expert's work.
  - ▶ Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
  - ▶ Published papers or books written by that expert.
  - ▶ The auditor's/Expert's firm's quality control policies and procedures.

## **Practical considerations:**

- *Examples of threats while evaluating objectivity?*

---

# Matters relevant for evaluation

---

- ❖ Whether AE's work is subject to technical performance/ professional/ industry requirements?
- ❖ Relevance of competence to the matter.
- ❖ Competence wrt accounting & auditing requirements.
- ❖ Need for reconsideration of initial evaluation.
  - ▶ Unexpected events / changes in conditions/ Audit evidence.
- ❖ Threats to objectivity *vis a vis safeguards* .
  - ▶ Reduction of threats to acceptable level.
- ❖ Auditor may need to obtain written representation from Expert re interests/ relationships with the entity that expert is aware.



# Obtain an understanding of the work of expert

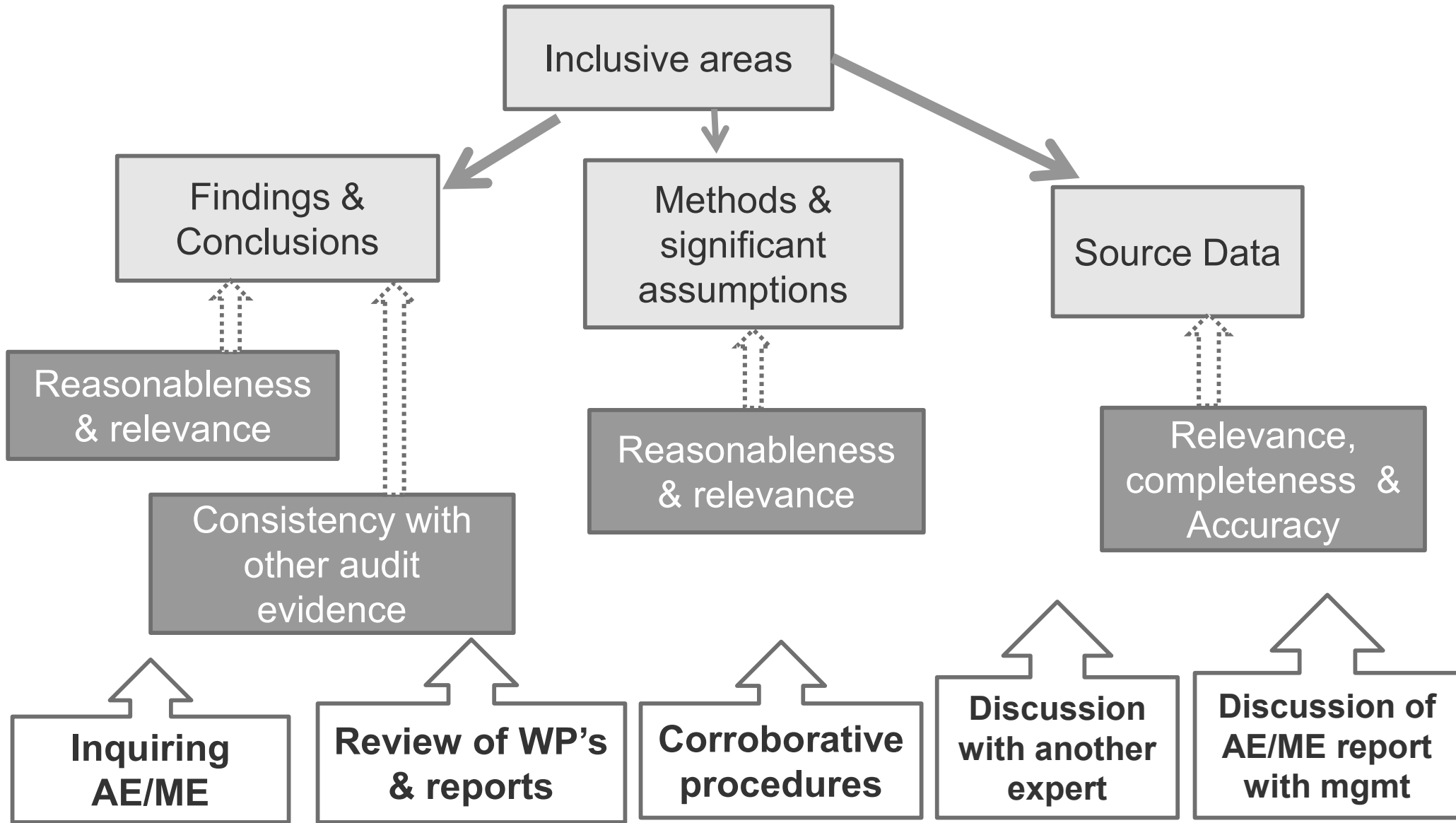
---

To obtain an understanding of the work of an expert employed by the entity, we consider:

- ▶ The nature, scope and objectives of the work.
- ▶ The extent to which management exercises control over the work of the expert.
- ▶ Whether the expert is subject to technical performance standards or other professional or industry requirements.
- ▶ The existence of controls within the entity over the work of the expert

The nature, timing and extent of communication between us, including the form of the findings and conclusions to be provided by the AE

# Evaluating Adequacy of Expert's Work



# Examples

---

- ▶ Methods / models – Whether in line with industry standards / accounting standards
- ▶ Assumptions – In accordance with industry trends, accuracy of assumptions in earlier periods, intent and ability of management to carry out course of actions (capacity expansion, etc.), sensitivity analysis
- ▶ Data source – External / internal, approved by competent authority
- ▶ Management process – Process and controls implemented by management to validate above factors

Since the above factors involves significant judgements, auditors and / or its experts must document the rationale for judgements

# Expert's work not adequate for audit purposes

---

- ❖ Agree with AE on nature & extent of further work to be done by AE.
- ❖ Perform further audit procedures appropriate in circumstances.
  - ▶ Includes engaging another expert.
  - ▶ If above cannot resolve inadequacy, MODIFIED opinion MAY be required.

- ❖ If we conclude that the work of the ME is not adequate for our purposes, we:
  - ▶ Discuss the matter with management and the expert.
  - ▶ Agree with the expert on the nature and extent of further work to be performed.
  - ▶ Perform additional audit procedures appropriate to the circumstances.
  - ▶ Involve AE

# Responsibility for Audit Opinion (wrt AE)

---

- ❖ Audit opinion is the sole responsibility of the auditor:
  - ▶ If requirements of this SA are followed & auditor concludes expert's work is adequate, auditor may accept that work as SAAE.
  
- ❖ Unmodified Audit Report:
  - ▶ No reference unless required by L&R.
  
- ❖ Modified Audit Report:
  - ▶ Refer to make modification more clear.

In any case, audit report to clarify that reference does not reduce auditor's responsibility.

# Requirement- Agreement with the auditor's expert

---

- ❖ Agreement on:
  - ▶ Nature, scope & objectives of AE's work (may include relevant technical standards or other professional and industry requirements).
  - ▶ Respective roles & responsibilities of auditors & AE.
  - ▶ Nature, timing & extent of communication, including form of report.
  - ▶ Need for AE to observe confidentiality requirements under ethical requirements or L & R.
- ❖ Agreement necessary even if AE is internal.
- ❖ Level of detail/ formality may vary.
- ❖ May be in writing, if appropriate.

# Requirement- Agreement with the Auditor's expert

---

The agreement is due to the following factors :

- ▶ The auditor's expert will have access to sensitive or confidential entity information.
- ▶ The respective roles or responsibilities of the auditor and the auditor's expert are different from those normally expected.
- ▶ Multi-jurisdictional legal or regulatory requirements apply.
- ▶ The matter to which the auditor's expert's work relates is highly complex.
- ▶ The auditor has not previously used work performed by that expert.
- ▶ The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

# Key considerations and documentation

---

## Practical challenges:

- ▶ Evaluation whether an expert is required or not
- ▶ Whether management expert is sufficient to enable appropriate decision
- ▶ Timely involvement of auditors' expert in the audit, as their results involves judgements which may warrant discussion with management
- ▶ Appropriateness of data source, alignment with management's internal information
- ▶ Reasonableness of assumptions including its past precedence and sensitivity analysis
- ▶ Segregation of responsibility between the auditor and their experts

## Documentation:

- ▶ Agreement between the auditors and experts for sharing of responsibility
- ▶ Verifying the competence of the experts
- ▶ Work done on assumptions and data source
- ▶ Discussion with management and those charged with governance
- ▶ Discussion between the auditors and experts



# Recap...

---

Particulars	ME	AE
Audit Procedures	Evaluate the competence, capabilities and objectivity of expert	Evaluate the competence, capabilities and objectivity of expert
Audit Procedures	Obtain an understanding of the work of expert	Agree the scope of work and communication protocols with expert
Audit Procedures	Evaluate the work of the expert	Evaluate the work of the expert
Audit Procedures	Conclude whether the work of expert is adequate for our purposes	Conclude whether the work of expert is adequate for our purposes
Applicability of firm QC to expert	NA	Applicable
Agreement	NA	Applicable
Reference to expert in Audit Report	NA	Applicable
Purpose/Used for	Management to prepare FS	Auditors to obtain SAAE
SA	Refer SA 500	SA 620

# SA 610, Using the work of Internal Auditor;



---

# Scope of SA 610

---

- ▶ This Standard on Auditing (SA) deals with the external auditor's responsibilities if using the work of internal auditors. This includes :
  - ▶ using the work of the internal audit function in obtaining audit evidence and
  - ▶ using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
- ▶ This standard does not apply if:
  - ▶ The entity does not have an internal audit function
  - ▶ The responsibilities and activities of the function are not relevant to audit.
  - ▶ If external auditor does not expect to use the work of the function in obtaining audit evidence or to provide direct assistance.

---

# Objective

---

- ▶ The external auditor expects to use the work of such internal auditor:
  - a) To determine whether the **work of the internal audit function** or **direct assistance** from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination.
  - b) If using the work of the internal audit function, to determine whether that **work is adequate** for purposes of the audit; and
  - c) If using internal auditors to provide direct assistance, to **appropriately direct, supervise and review** their work.

---

# Evaluating the Internal Audit Function

---

What external auditor has to evaluate?

1. The extent to which the internal audit function's organizational status and relevant **policies and procedures** support the **objectivity of the internal auditors**;
2. The level of **competence** of the internal audit function
3. Whether the internal audit function applies a **systematic and disciplined approach**, including quality control.

---

# Written Representation

---

- ▶ Prior to using internal auditors to **provide direct assistance**, we obtain written agreement:
  - a) From an authorized representative of the entity, that the **internal auditors will be allowed to follow our instructions**, and that the entity will not intervene in the work the internal auditors perform for us
  - b) From the internal auditors, that they will keep **confidential specific matters** as instructed by us and inform us of any threat to their objectivity.

When our plan to use internal auditors to provide direct assistance is determined sufficiently early, we may **obtain written agreement** from the entity as part of the engagement agreement, **depending on local law or regulation**.

---

# Using the work of internal auditor function

---

- ▶ **Communicate with those charged with governance** an overview of the planned scope, timing and plan to use the work of the internal audit function.
- ▶ **Read the reports** of the internal audit function
- ▶ Obtain an understanding of the **nature and extent of audit procedures** it performed and the related findings.

---

# Using the work of internal auditor function

---

The external auditor shall perform sufficient **audit procedures to determine its adequacy** including evaluating whether:

1. The **work of the function** had been properly planned, performed, supervised, reviewed and documented.
2. **Sufficient appropriate evidence** had been obtained to enable the function to draw reasonable conclusions; and
3. **Conclusions reached** are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.



---

# Using the work of internal auditor function

---

- ▶ Areas requiring significant judgments, and therefore areas in which we **cannot use the work** of the internal audit function, include:
  - i. Assessing the risks of material misstatement
  - ii. Evaluating the sufficiency of tests performed
  - iii. Evaluating the entity's ability to continue as a going concern
  - iv. Evaluating higher risk accounting estimates
  - v. Evaluating the materiality of misstatements
  - vi. Evaluating the adequacy of disclosures in the financial statements, and other matters affecting our auditor's report

Regardless of the **degree of autonomy and objectivity** of the internal auditors, they cannot achieve the same degree of **independence** that we must possess when expressing an opinion on the financial statements. Therefore, we **cannot substitute the internal auditor's** judgments for ours in areas requiring significant judgment.

---

# Using the work of internal auditor function

---

Areas which we can use the work of the internal audit function, include:

- ▶ **Testing of operative effectiveness** of controls.
- ▶ **Physical verification** of inventory, fixed assets, spares etc.
- ▶ **Substantive procedures** involving limited judgement.
- ▶ Example: test of details, invoice/ agreement/ MOU/prospectus documentation etc.
- ▶ **Tracing transactions** through the information system relevant to financial reporting.
- ▶ **Testing of compliance** with regulatory requirements.

# Methods by which work of an internal audit function can be used

Using the work performed by Internal Audit function	Using Internal Auditors to provide Direct Assistance
Scope of his appointment by the management	Scope as per the directions issued by the external auditor
Reports to management/ those charged with governance.	Reports to external auditor for work performed to provide direct assistance
Work done/ documentation performed by internal auditor	Directs internal auditor as to how the documentation has to be done, level of testing, no. of samples, risk factor etc.
Purpose of internal reporting under internal audit report.	Documentation for external auditor as per the directions and under the supervision of external auditor
No written agreement is required to be obtained from the entity	Prior written agreement should be obtained

---

# Documentation

---

- ▶ If the external auditor uses **internal auditors to provide direct assistance** on the audit, the external auditor shall include in the audit documentation:
  - a) The evaluation of the existence and significance of **threats to the objectivity of the internal auditors**, and the level of competence of the internal auditors used to provide direct assistance
  - b) The **basis for the decision** regarding the nature and extent of the work performed by the internal auditors.
  - c) Who **reviewed the work performed** and the date and extent of that review in accordance with SA 230.
  - d) The **written agreements obtained** from an authorised representative of the entity and the internal auditors.
  - e) The **working papers prepared** by the internal auditors who provided direct assistance on the audit engagement.

# Key considerations and documentation

---

## Practical challenges:

- ▶ Treatment of findings of internal audit functions.
- ▶ Evaluating of objectivity of Internal audit.
- ▶ Local law or regulation

## Documentation:

- ▶ Verifying the **competence** of the internal auditor
- ▶ **Agreements** from the entity and the internal auditors providing direct assistance
- ▶ Determine whether we can **use the work of the internal audit** function.
- ▶ Determine the nature and **extent of work of the internal audit** function that can use
- ▶ **Plan to supervise and review** the work of internal auditors when obtaining direct assistance from internal auditors.
- ▶ A copy of **Internal Audit Report and the adequacy** of the work of the internal audit function

# Key findings of regulatory inspection

Joint Audits – SA 299	<ul style="list-style-type: none"><li>➤ Not preparing audit documentation for the audit procedures</li></ul>
Using the work of Another Auditor (SA 600)	<ul style="list-style-type: none"><li>➤ Not advising the other auditors use that is to be made of the other auditor's work and not make sufficient arrangements for co- ordination of their efforts at the planning stage of the audit.</li><li>➤ Not indicating the number of branches audited by other auditors in the “Other matter paragraph”</li></ul>
Using the Work of an Auditor’s Expert (SA 620)	<p>Not evaluating of:</p> <ul style="list-style-type: none"><li>➤ Competence, capabilities and objectivity for the auditor’s purposes and not evaluating the relevance and reasonableness of the assumptions</li><li>➤ Completeness and accuracy of the source data in determining the provisions regarding the employees’ benefits</li></ul>

# Key findings of regulatory inspection

## Using the Work of Internal Auditors (SA 610)

### Not documenting of:

- Conclusions regarding the evaluation of the adequacy of the work of the internal auditors
- Copy of the internal audit report
- Conclusions audit procedures performed by the external auditor on that specific work
- Function's organizational status and relevant policies and procedures support the objectivity
- whether the function applies a systematic and disciplined approach, including quality control
- the nature and extent of the work used and the basis for that decision
- Not evaluating any conflicting responsibilities as the internal auditors of the company were also the statutory auditors of two of its subsidiary companies

# Summary: Key consideration

## SA 299, Joint Audits

- ▶ Joint Responsibility Statement
- ▶ Determining the audit plan including the materiality jointly
- ▶ Concurrence on engagement letter, representation letter and auditors report
- ▶ Joint responsibility for FS

## SA 620, Using work of auditors' expert

- ▶ Need of the expert
- ▶ Competence, capabilities & objectivity (v/s independence)
- ▶ Completeness and appropriateness of source data, assumptions, methods, etc.
- ▶ Segregation of responsibility between the auditors and expert

## SA 600, Using work of another auditor

- ▶ Advising the other auditors for use of their audit work
- ▶ Issuance of group audit instructions, including key risks, materiality, timetables, communication protocols
- ▶ Findings of component auditors

## SA 610, Using work of Internal Auditor

- ▶ Nature and extent of the work used
- ▶ Ensure competence, objectivity, disciplined & systematic approach
- ▶ Evaluation of the adequacy of the work of the internal auditors
- ▶ Appropriately direct, supervise and review their work.

**Minutes of meetings; Work allocation agreements; Conclusion memos;**



---

---

# Questions ??

# Thank you

The background of the slide features a close-up, shallow depth-of-field photograph of several rolled-up documents or scrolls. The scrolls are made of light-colored paper and are arranged in a cluster, with some in sharp focus and others blurred in the foreground and background. The lighting is soft and natural, highlighting the texture of the paper.

**Presented by:**  
**CA. Shreyans Ravrani**

**Email:**  
**[shreyans.ravrani@srb.in](mailto:shreyans.ravrani@srb.in)**